BorgWarner

Investor Facts 1986

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About Some of These Charts . . .

Group Data

- Products and services are listed in descending order based on sales volume.
- Group Operating Data, except capital expenditures, depreciation, and research and development, have been adjusted for operations discontinued in prior years.

11-Year Financial Summary

- Net sales—United States includes exports.
- Net earnings—United States includes earnings from affiliates and Financial Services. Earnings from discontinued operations have been split between United States and foreign results.

Highlights

• Restructured Operations

Acquired Chilton, a leader in credit reporting, establishing a foundation for a new information services group.

York Air Conditioning spun off. The spin-off of this business adds more than one percentage point to our operating margin and to our return on equity.

Echlin stock sold for $96 million, yielding a $25 million aftertax gain.

• Record Internal Investment

Capital spending to increase 7 percent to $230 million in 1986 from $215 million last year. Spending from 1981 through 1985 was dominated by cost saving and productivity enhancement projects. In 1986, the bulk of our investment is earmarked for new capacity. Specific plans include advanced technology ABS and Prevex® plastic plants.

Research and development expenditures will be $83 million in 1986, a projected increase of 15 percent over 1985.

• In April 1986, C. E. "Red" Johnson was elected chief executive officer.

James F. Beré will continue as chairman.

Corporate Overview

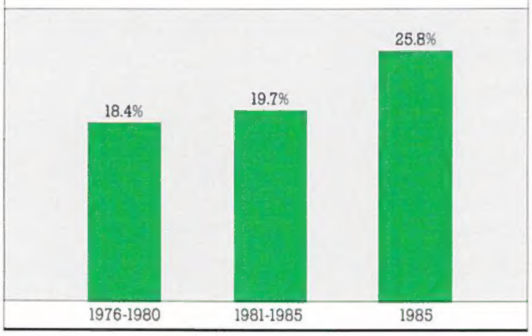
In 1928, four component manufacturers created a loose confederation to strengthen their position in the automotive industry. That merger formed Borg-Warner, which, over the years, successfully diversified into plastics and industrial products, while continuing as a major automotive supplier.

In the mid-1970s, though, seeing fundamental changes in the world economy, Borg-Warner changed its investment objectives:

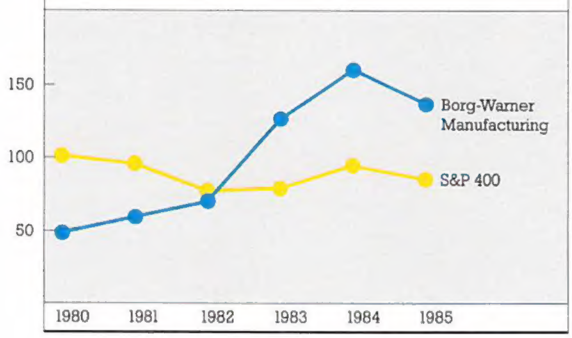
- To redirect its investments in manufacturing to those businesses that offered higher rates of return and that could compete globally.
- To reduce its vulnerability to economic cycles by achieving a balanced earnings mix between manufacturing and services.

This would be accomplished while maintaining its financial strength.

Return on Manufacturing Assets
Percent



Aftertax Return on Manufacturing Assets
Index



Improved returns in manufacturing

In the past 10 years, returns in manufacturing have improved substantially as a result of the successful implementation of our strategic plans and a healthier economy.

In the past five years alone, we have divested more than $450 million of product lines with limited potential for growth or improved returns. For example, in 1981, Borg-Warner divested its businesses in the automotive aftermarket and the Chemicals group's BTA modifiers business in Europe. We divested Morse Industrial in 1982, and spun off our air conditioning business, as York International Corporation, in 1985.

At the same time, Borg-Warner increased its investments in plastics and automotive components where we have proprietary positions. We only invest in manufacturing businesses where we can have the largest market share, or be a strong second, and earn a return substantially exceeding our cost of capital.

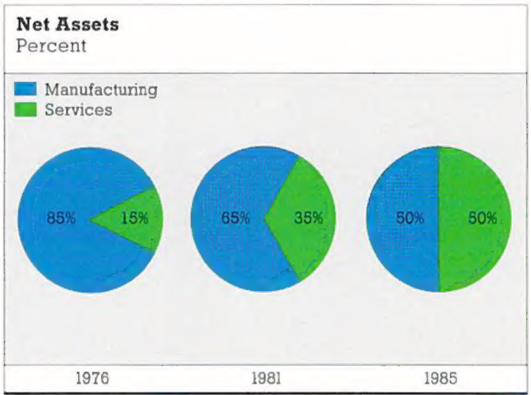
We also learned to manage our businesses better. We directed capital spending specifically toward cost reduction, and improved productivity and operating margins. Strict working capital controls were implemented, and over the past decade, inventory turns increased more than 40 percent to 5.4 times today, while days' sales in receivables dropped. Even today, we expect continued improvement in productivity and working capital, particularly inventory.

Service investments

We have successfully redeployed the excess cash flow from manufacturing into service businesses.

Borg-Warner enhanced the dominant position held by its Financial Services group in floor planning. And the addition of Protective Services, beginning with the acquisition of Baker Industries in 1977, provides a strong position in the security and ground courier markets. Early in 1986, the acquisition of Chilton Corporation, a credit reporting company, gave Borg-Warner a strong foothold in the burgeoning field of information technology.

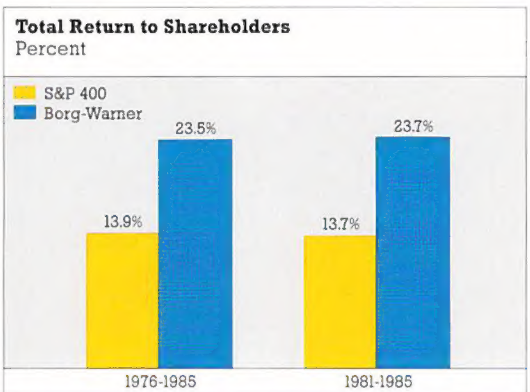
While a majority of earnings still come from manufacturing, at year-end 1985, our investment was evenly divided.



Strong balance sheet

We grew, but we grew within the framework of a conservative and strong balance sheet. Our long-term goal is to keep the debt-to-equity ratio at less than 35 percent. In fact, over the past five years, it has exceeded 25 percent only once. As a result of the acquisition of Chilton, it currently is 31 percent.

In addition, we have increased our dividends every year since 1975, and the dividend payout ratio has averaged near our targeted rate of 35 percent. Our total return to shareholders, including dividends and stock appreciation, in fact, has substantially outpaced the Standard & Poor's 400.



Our accomplishments over the past decade have provided substantially better performance than if we had remained solely in our traditional businesses. The result of management decisions has simply been a better return for our shareholders.

Future investments

The policies of the past 10 years have laid a strong foundation for future growth.

While our policies focus investments where they will earn the greatest returns, we won't make investments, no matter how attractive, unless they are consistent with the long-term strategies for our business. We make our investments with an eye toward long-term successes in those businesses, not short-term "portfolio" returns.

In both our manufacturing and service businesses, we will grow our high performers and seek further acquisitions when strategically advantageous. We will also divest businesses—whether in manufacturing or services—that, long term, fail to meet our criteria for returns.

We will invest to expand manufacturing so that we can compete globally and in products such as Prevex polymers and the continuously variable transmission that promise substantial growth and return on our investments.

Borg-Warner also has made investments necessary for significant earnings growth and improved returns from our service businesses. We will concentrate on improving our returns from our larger, established groups, Financial and Protective Services, through cost-savings and tightened operational controls. These businesses now must meet the same criteria as manufacturing for continued investment.

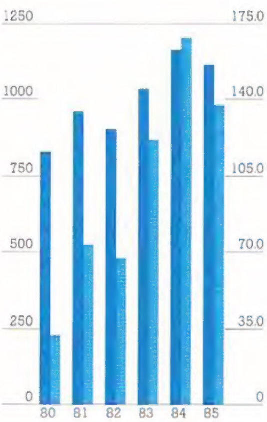
Future investments in information technologies—to complement and to supplement our acquisition of Chilton—must promise the same returns, albeit over a longer time.

Our current plan anticipates real earnings growth, and more important, a positive cash flow over the next five years. We intend to provide our shareholders with a total return that's much better than average and we believe that we can.

Automotive

Automotive
Sales ■
Operating profit ■

millions of dollars



%* 3.9 7.6 7.4 11.7 14.4 12.3
*Margin on sales

Borg-Warner Automotive designs, manufactures and markets high technology products for original equipment manufacturers (OEMs) worldwide. Most of the products are for power-train applications, including transmissions, automatic transmission components, engine controls, clutches, timing and drive chains and axles.

In addition, Automotive has taken a significant step with the production and distribution of a new line of high performance turbochargers for passenger cars.

Brand names include Borg & Beck®, Marvel-Schebler®, York®, Morse®, Hy-Vo®, and Warner Gear.

Customer Classes

Industries utilizing our components include the passenger car, truck, off-highway, agricultural, marine and recreational vehicles.

Products also are sold to aftermarket distribution companies.

About 36 percent of sales, including exports, are to foreign customers.

Competition

Competition continues to come from a number of U.S.-based suppliers as well as original equipment manufacturers. In addition, foreign competition continues to increase as these manufacturers establish facilities in the United States.

Major independent competitors include:

Dana:	Manual transmissions, axles, clutches, torsional vibration dampers, universal joints.
Eaton:	Torsional vibration dampers, emission devices.
Allied:	Emission devices, solenoids.
PTC Inc.:	Chains.
Raymark:	Friction products.
Rockwell:	Axles, universal joints.
Twin Disc:	Clutches, hydraulic transmissions, torque converters, universal joints, power takeoffs.

Pricing Flexibility

Intense worldwide competition, customers' continuing efforts to reduce costs, and continued low inflation limit price increases by automotive components suppliers.

Products and Markets

Products	Markets: Automobile	Truck	Replacement Parts	Off-Highway	Agribusiness
Manual transmissions	●	●	●		
Automatic transmissions	●		●		
Axles & differentials	●	●	●		
Chain	●	●	●		
Clutches	●	●	●	●	●
Friction products	●	●	●	●	●
Hydraulic transmissions			●	●	●
Torsional vibration devices	●	●	●	●	●
Emission devices	●	●	●		
Air conditioning compressors	●	●	●	●	●
Torque converters	●	●	●		
"U" joint & drive shafts		●	●	●	●
Power takeoffs		●	●	●	●
Sensors	●				●
Transfer cases	●	●			

Strategic Overview

In 1986, industry observers predict worldwide sales of 31.8 million cars and trucks, up slightly from the 31.3 million in 1985. Borg-Warner Automotive is well-positioned to supply the world market from our North American plants, as well as from facilities in Asia, Europe and South America.

Our emphasis on continued market expansion is expected to bear positive results in 1986 and 1987. Expansion of foreign markets should exceed growth in the United States. Prospects for improvement in other non-passenger car markets are mixed.

Also, we anticipate that our customers' new product introductions—incorporating additional Borg-Warner components and systems—will increase in the coming months.

Products about to be introduced or now under development include a new family of four-wheel drive transfer cases.

New products already in production include the new electronic capacitive pressure sensors for engine and emission control applications, extended life exhaust gas recirculation (EGR) valves and new high technology turbochargers. We also introduced a number of new components for the continuously variable transmission including clutches, dampers and transmission controls.

A number of overseas car manufacturers are introducing new products that will incorporate Borg-Warner Automotive components. With a number of U.S. original equipment manufacturers continuing to use our components and others planning to introduce new vehicles with Borg-Warner Automotive products, we believe our sales will show continued improvement as full production schedules are implemented.

The group entered 1986 with excellent backlogs, significant progress in new product developments and major achievements in cost reductions. Therefore, we expect that Borg-Warner Automotive should match its 1985 performance.

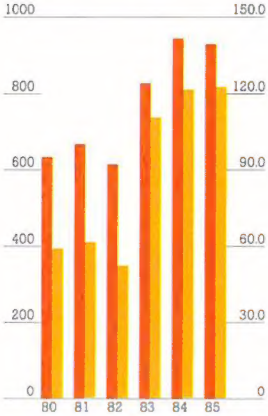
Group Operating Data

(millions)	1985	1984	1983	1982	1981
Net sales	$1,117.2	$1,167.9	$1,037.4	$ 905.5	$ 960.8
Operating profit	$ 137.5	168.7	121.7	67.1	73.4
Operating margin	12.3%	14.4%	11.7%	7.4%	7.6%
Identifiable assets at December 31	$ 465.6	461.9	466.0	478.7	491.4
Sales per dollar of identifiable assets	$ 2.40	2.53	2.23	1.89	1.96
Operating profit as percent of identifiable assets	29.5%	36.5%	26.1%	14.0%	14.9%
Capital expenditures	$ 61.9	55.1	37.9	65.6	83.4
Depreciation	$ 34.8	35.5	39.0	36.8	35.3
Research and development	$ 28.3	23.7	22.3	21.5	24.9

Chemicals

Chemicals
Sales
Operating profit

millions of dollars



%* 9.3 9.2 8.5 13.3 12.8 13.2
*Margin on sales

Borg-Warner Chemicals is a leading manufacturer of engineering thermoplastics used in hundreds of durable goods applications worldwide. Our products include Cycolac® brand ABS thermoplastic; Prevex® brand polymers; Cycovin® brand ABS/PVC alloys; Cycoloy®, Proloy®, and Elemid® brand thermoplastics.

The company also manufactures specialty chemicals primarily used by the worldwide plastics industry. Additionally, Chemicals produces styrene monomer, a basic building block of the plastics, rubber, textile and carpeting industries.

During 1985, Borg-Warner Chemicals introduced seven new grades of Prevex brand polymer, bringing the total number of grades to 25. We also introduced five new grades of Blendex® brand impact modifier resins. These materials add strength and clarity to other plastics, chiefly PVC. Primary end markets include credit cards, packaging, piping and automobile crash pads. Last year, we also increased the size of our nationwide distribution subsidiary, the Plastic Service Centers, by adding a center in Oregon. Thermoplastics are now distributed by 11 centers across the United States.

Customer Classes

Borg-Warner leads in the North American ABS industry in terms of both market share and breadth of the product line. Two other plastics companies, Dow and Monsanto, offer ABS in the United States.

In Europe, the company recently concluded the merger of its European ABS business with that of CdF Chimie of France. The new company, Borg-Warner Chemicals Europe B.V., which is 70 percent-owned by Borg-Warner, has the largest share of the ABS market but competes with seven other manufacturers in that market.

Business Environment

Competition from foreign ABS suppliers, especially from Southeast Asia, continues to intensify in Europe and North America, the major consuming geographies of the world. Aggressive sales and service activity, however, has prevented margins from deteriorating. The company continues to offer critical design and engineering services, which have helped blunt the attack from offshore producers who are primarily targeting the commodity end of the ABS business.

Products and Markets

Products	Markets: Thermoplastics	Chemical Specialties	Petrochemicals
Appliances	●		
Automobiles	●	●	●
Consumer products	●		
Electronics and computers	●		
Housing	●		●
Lubricant additives		●	
Other plastics	●	●	●
Packaging		●	●
Textiles		●	●

Strategic Overview

The group expects higher sales and margins in 1986.

The North American thermoplastics business should continue at its current pace. Automotive grades will continue to expand especially as our newer Prevex polymer and alloy products gain applications. We continue to develop new grades of Cycolac ABS to complement the three high-productivity grades introduced to the automotive market last year.

Other thermoplastics markets, such as telecommunications, office automation systems, electronics, and refrigeration, continue strong. We also see a rebound in the personal computer market in 1986.

The number of applications for Prevex brand polymers grew significantly in 1985, and we expect continued growth for this high performance plastic. This year, Borg-Warner announced plans to build a plastics compounding facility at Shelbyville, Ky. for Cycolac, Prevex polymers, and the company's growing family of thermoplastic alloys.

Construction is also proceeding on an ABS expansion and a Prevex polymer raw materials plant at Bay St. Louis, Miss., the site of an ABS plant completed in 1982.

Sales of specialty chemical products continue strong as the company introduces new proprietary products for its Blendex brand impact modifiers and Ultranox® brand heat stabilizers.

Volumes of styrene monomer remain strong, but worldwide industry overcapacity continues to pressure margins. However, lower oil prices should greatly stimulate demand by 1987 as styrene-based plastics become more price effective than paper and glass in packaging, and as tire sales are stimulated by lower gasoline prices.

In Europe, we expect continued growth for our ABS business as a result of our merger with CdF Chimie. We also plan to accelerate the introduction of Prevex polymer.

We continue to move towards our goal of being able to provide a full range of identical grades and colors to the world market to service global customers in the automotive, computer and telecommunications industries.

In chemical specialties, we continue to introduce value-added products to the plastics industry. One of the new grades, based on proprietary technology, allows us to compete with higher-priced competitive products in the PVC packaging market.

Our styrene monomer margins should improve somewhat in 1986 with the recent retrofit and expansion of our Louisiana joint-venture facility. Longer term, our capital investment program is geared to expand our ability to serve our markets and to be the low-cost producer.

We are increasing our research and development effort to achieve state-of-the-art technical capability. We plan to expand into complementary product lines, not only through new product development, but also by acquisitions, joint ventures and mergers such as the CdF Chimie agreement.

Our future is in our people, and we are in the midst of an ongoing program to involve them in solving problems and capitalizing on opportunities. On January 1, we eliminated the "hourly" classification of employees and put all workers on salary. This brought the benefits and retirement programs of all employees into line and did away with the artificial distinction between hourly and salaried employees.

Productivity improvements have saved us $68 million since 1981, and the involvement of our employees is largely responsible for this.

Group Operating Data

(millions)	1985	1984	1983	1982	1981
Net sales	$928.6	$944.1	$826.3	$612.8	$663.9
Operating profit	$122.3	121.3	110.2	51.8	61.2
Operating margin	13.2%	12.8%	13.3%	8.5%	9.2%
Identifiable assets at December 31	$436.9	375.6	365.0	296.7	315.9
Sales per dollar of identifiable assets	$ 2.13	2.51	2.26	2.07	2.10
Operating profit as percent of identifiable assets	28.0%	32.3%	30.2%	17.5%	19.4%
Capital expenditures	$ 62.9	36.8	21.4	15.5	40.4
Depreciation	$ 21.9	20.4	19.8	18.9	19.2
Research and development	$ 25.3	23.7	21.2	19.6	18.9

Chilton Corporation

Chilton has provided credit information services to the nation's credit grantors since 1897. Its primary businesses are credit reporting and accounts receivable management. It maintains credit records on over 86 million consumers in 35 states (see map). Credit reporting services also include new account development and account monitoring programs.

Chilton also provides value-added services to meet the needs of specific customer groups, including: customized reports for mortgage lenders; account management programs for hospitals and universities; and the sale and lease of data equipment products. In addition to its own operations, Chilton's data processing division provides services to independently owned credit bureaus throughout the country.

Customer Classes

Credit reports, data equipment products, and accounts receivable management services are sold to banks, retailers, finance companies, oil and gas companies, mortgage firms, and travel and entertainment card issuers. Customized collection programs are provided to medical and educational institutions. Mortgage reports are sold to mortgage lenders. Check authorization services are offered to retailers, banks, and supermarkets in selected Southwestern markets.

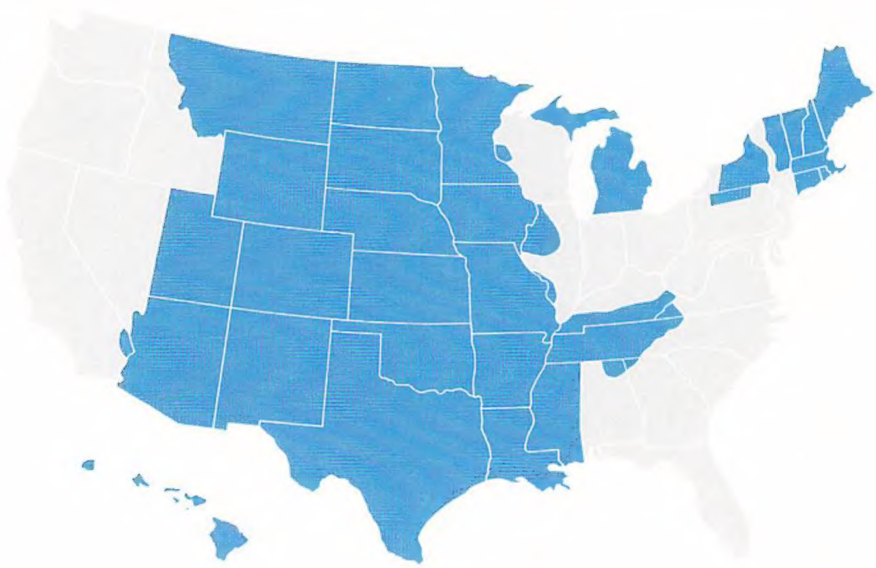
Business Environment

Rapid growth in consumer credit reporting over the past four years has provided sufficient profit for the major credit report vendors, so price increases have been infrequent. However, if volume growth slows, prices should increase, matching at least the current low inflation rate.

Competitive Climate

Major competition includes: TRW, Equifax, Trans-Union and Associated Credit Services. Numerous small, specialized credit bureaus as well as local and national collection agencies compete for business with Chilton in local markets.

Chilton Credit Reporting Area Coverage



Strategic Overview

In 1986, Chilton expects continued, but relatively lower growth in revenues than in the past four very strong years. Flat to slightly lower interest rates should keep residential housing—starts, resales and refinancing—healthy. This implies another good year for our mortgage reporting unit. Excellent results in this unit should more than offset the weakening trend we're seeing in retail spending. Especially among consumer durables, we are tracking comparatively moderate gains, year-over-year, and as a result, we look for modest improvement in this segment of our business.

Manufacturer and dealer special low-interest incentive plans stimulated new car sales in 1985, and that trend is continuing into 1986. Generally, lower interest rates make all cars more affordable, increasing credit reporting volume from both new and used car sales.

Credit report sales for new bankcard accounts was our fastest growing business in 1985. We believe that bankcard business will remain strong in 1986. There is concern at present that a small percentage of consumers have overextended themselves. Searching for early indications of possible overextension is one very important reason for buying a credit report. Further, planned system enhancements in 1986 will be directed toward providing expanded early warning signals. Bank installment lending is growing as consumers take advantage of lower interest rates. This trend should continue despite predictions by credit report analysts that loan refusal rates will increase due to consumer overloading.

Chilton's approach to geographic expansion is longstanding and deliberate. The company builds in areas contiguous to existing operations as we continue toward eventual national coverage. In 1986, Chilton will continue direct entry expansion and file building efforts in five markets. We also expect progressively better profit contribution from the seven credit bureaus acquired during the past 18 months.

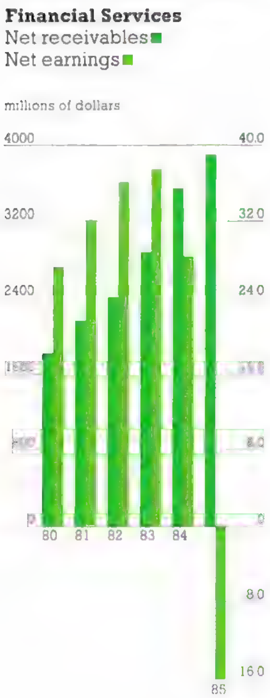
In 1986, Chilton looks for continued favorable earnings growth from a stable, but growing, economy, new business in new markets, and continued improvement in cost control, offset by the impact of Borg-Warner's acquisition costs.

Five-Year Financial Highlights

as originally reported; fiscal year ended March 31

(thousands)	1985	1984	1983	1982	1981
Revenues	$86,479	$68,459	$54,029	$44,960	$39,459
Pretax income	12,483	9,073	4,547	2,506	2,127
Net income	7,841	5,338	3,230	1,529	1,255
Total assets	57,405	46,441	31,106	26,712	26,791
Capital expenditures	12,719	3,370	6,279	952	657

Financial Services



Financial Services' main business is commercial lending. The group also provides insurance, freight bill audit and payment services, and retail furniture and appliance sales and financing in Puerto Rico.

Borg-Warner Acceptance Corporation, the group's largest unit, is primarily involved in inventory financing, or floor planning, for manufacturers and distributors and their retail dealer networks. Other product lines include insurance premium financing, asset-based lending, vehicle fleet leasing, commercial and municipal leasing and rental financing. Additional services include lease brokerage, credit insurance, fleet management, and financial services consulting.

Group products are distributed through more than 320 branches in the United States, Australia, Canada, and Europe. In 1985, foreign activities accounted for 11 percent of identifiable assets.

This network provides the local customer service, which has set the business apart from its competitors. To serve special needs, the group has established branches concentrating on marine, agribusiness, recreational vehicles, rental and automotive products.

Customer Classes

Inventory financing is generally provided at the distributor and dealer levels. Leasing and installment lending are directed to end users, either commercial or consumer.

Business Environment

Financial Services prices its products on the basis of total services provided—not just on the cost of money. Margins are protected by spread lending, which matches rate sensitive receivables with rate sensitive debt of similar maturities.

Competition

- Commercial banks—most product lines.
- General Electric Credit Corporation—most product lines.
- ITT Financial Corporation—most product lines.
- Westinghouse Credit Corporation—most product lines.
- Whirlpool Acceptance Corporation—primarily inventory financing.

Net Receivables by Product

(millions)	1985		1984	
Wholesale				
Television sets and stereo equipment	$ 638.6	16%	$ 495.8	14%
Recreation equipment	459.7	12	423.4	12
Other personal property	436.6	11	360.4	10
Major appliances	245.2	6	247.9	7
Autos	243.3	6	191.4	5
Agricultural equipment	204.5	5	374.7	10
Manufactured housing	57.4	1	28.2	1
Total wholesale	$2,285.3	57%	$2,121.8	59%
Commercial loans and lease receivables				
Sales finance, industrial, realty and leases	$1,187.5	30%	$ 955.2	26%
Leveraged leases	99.0	2	101.4	3
Total commercial	$1,286.5	32%	$1,056.6	29%
Retail				
Consumer products	$ 196.4	5%	$ 194.0	5%
Manufactured housing	74.2	2	90.3	2
Agricultural equipment	56.8	1	61.8	2
Total retail	$ 327.4	8%	$ 346.1	9%
Trade accounts receivable	$ 102.1	3%	$ 102.4	3%
Net finance receivables	$4,001.3	100%	$3,626.9	100%

Strategic Overview

In 1986, Financial Services expects profits to be more in line with traditional performance. The loss in 1985 and the decline in 1984 resulted largely from establishing reserves for losses on agribusiness receivables and in our casualty insurance business.

Financial Services significantly reduced lending to agribusinesses and discontinued our property and casualty insurance operations. Financial Services also has instituted more stringent controls to avoid overexposure to any industry or company. But unfortunately, we continue to see the effects of past problems.

Although we expect growth in receivables and volume this year, the rate of growth will slow. This results, in part, from the pruning of less attractive business.

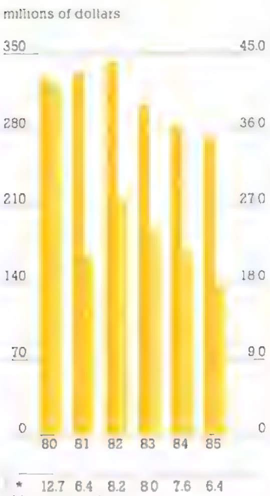
Long term, Financial Services seeks to improve our return on investment. This may very well include divesting businesses that lack the potential to meet our long-term goals. It will certainly include building on the group's traditional strengths: its dealer network and tradition of personal service.

Group Operating Data

(millions)	1985	1984	1983	1982	1981
Gross revenue	$ 644.2	$ 669.7	$ 525.7	$ 496.4	$ 457.3
Pretax income	$ (42.1)	37.3	50.5	58.3	53.2
Net income—Finance	$ (10.9)	47.4	40.1	30.6	26.9
—Insurance	$ (5.3)	(19.1)	(2.7)	5.4	5.1
Total	$ (16.2)	28.3	37.4	36.0	32.0
Total assets	$4,455.7	3,957.4	3,263.6	2,708.6	2,420.8
Volume of receivables acquired	$8,089.3	7,096.0	5,521.2	4,205.2	3,800.3
Charge-offs as a percent of average net receivables	3.2%	1.0%	.7%	.9%	.6%
Shareholders' equity	$ 405.4	368.2	302.9	264.3	230.9
Return on equity	(4.2%)	8.4%	13.2%	14.5%	14.8%

Industrial Products

Industrial Products
Sales
Operating profit



*Margin on sales

Major products are Byron Jackson® centrifugal pumps for: electric power generation; petroleum production, processing and pipelines; agricultural and irrigation; and general industrial applications. In addition, the group produces: nuclear valves; hydro-electric turbines; precision mechanical seals for pumps and compressors; Weston™ precision hydraulic and pneumatic actuators for aerospace missile flight controls; Atchley Controls™ industrial servovalves; solenoids; and other specialty valves.

Customer Classes

The group sells directly to engineering contractors worldwide and to end users in the electric power generation, petroleum, petrochemical, government and defense and aerospace markets. Dealers and representatives are also used for distribution in agricultural, pulp and paper, mineral and ore processing, food processing, municipal and other general industry sectors.

Business Environment

Although energy consumption remains depressed worldwide, there is evidence of increased demand, influenced by improved economic conditions in industrialized countries.

Oil is projected to remain the largest single component of all energy, though its share is expected to drop. Oil energy demand is forecast to grow at 1 percent annually.

Consumption of electricity worldwide continues at a modest growth rate of 2 percent to 4 percent in industrialized nations, with the Pacific Rim and other undeveloped areas predicting higher growth rates. In the industrialized nations, excess capacity remains a major obstacle to growth through the remainder of the decade. Still, it is estimated that $60 billion will be spent to upgrade, resize and refurbish existing plants.

Cogeneration accounts for 7 percent of domestic electrical production and is forecast to grow by 10 percent by the end of this decade.

The general industrial market segment continues to experience modest growth. Yet segments of the aerospace and defense markets continue to offer substantial growth opportunities. While defense budget cuts are pending due to the Gramm-Rudman-Hollings Act, the missile procurement programs targeted by the group are projected to grow at a compound annual rate of 17 percent.

Half of Industrial Products' sales, including exports, go to international markets. The group is well positioned to be an effective competitor with manufacturing facilities in Argentina, Canada, Europe, Japan, Mexico and Saudi Arabia.

Competition:

Centrifugal Pumps
- Ingersoll-Rand
- Bingham Pump (Guy F. Atkinson)
- Pacific Pump & Worthington Pump (Dresser Industries)
- KSB
- Sulzer

Mechanical Seals
- John Crane (Houdaille)
- A. W. Chesterton
- Sealol (EG&G)
- Durametallic
- Flexibox
- Burgmann

Nuclear Valves, Valve Actuation Systems and Operators
- Rockwell International
- Anchor/Darling Industries
- ITT General Controls

Aerospace and Defense Control Systems
- HTL (Allegheny)
- Garrett AiResearch
- Moog
- National Waterlift
- Chandler Evans

Pricing:

Original equipment pricing continues to be soft in a depressed market affected by worldwide overcapacity. Successful efforts to reduce the group's cost structure have allowed us to remain profitable and competitive.

Strategic Overview

Overcapacity in the petroleum and power industries continues to stall growth in the original equipment market. However, aerospace and defense, general industry and the aftermarket segment of the energy business provide excellent opportunities to reduce dependence on original equipment.

The group is pursuing a strategic redirection of resources; and this, coupled with stringent cost reduction programs, has yielded a performance exceeding industry averages in both operating margins and return on investment. Industrial Products expects to do better in 1986. It foresees business potential, both domestically and internationally, in utilities' refurbishing plants, opportunities for energy-saving retrofits, user inventory programs, and cost effective repairs and service to Borg-Warner and competitive products.

The group enjoys a dominant position in the U.S. nuclear power industry. The aftermarket opportunities here are excellent, especially in upgrading the reliability of pumping systems. We are taking a new approach to the nuclear valve aftermarket, including servicing other suppliers' products. The group is also the primary service supplier to the nuclear power industry in Japan. The aftermarket is also providing growth in offshore petroleum, particularly in Europe, Canada and Mexico.

The group is vigorously pursuing opportunities in geothermal markets in Europe and in small hydroelectric facilities in the United States.

Industrial Products' most promising market is the defense and aerospace industry, which currently accounts for 17 percent of sales. This includes sales to the U.S. Navy as well as hydraulic and pneumatic actuation equipment to the aerospace industry. Overall sales to this industry are expected to grow substantially.

Of particular interest are pneumatic flight control systems for tactical missiles. These account for about 6 percent of the market for flight controls today. The group has a profitable position in this market which is expected to increase five or six times over the next five years.

Industrial Products is pursuing a program of both internal development and acquisitions. The research budget is being increased for the fourth consecutive year and continues to exceed industry averages. Specific product developments include the rubber-in-shear seal, introduced in 1985, which is expected to replace packing in industries, such as pulp and ore processing, that traditionally do not use mechanical seals. Software programs to enhance the technology of existing equipment include a diagnostics program developed for Byron Jackson® boiler feed pumps.

Our acquisition of Atchley Controls in 1985 and of SR Engineering in 1986 added a line of industrial servovalves and solenoids for the military and aerospace markets.

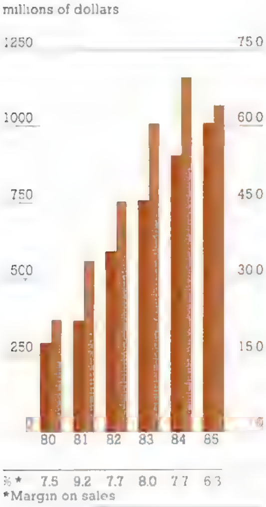
Longer term, Industrial Products' traditional markets are expected to provide excellent growth opportunities for companies that provide high performance, specialty products in select market segments.

Group Operating Data

(millions)	1985	1984	1983	1982	1981
Net sales	$273.5	$283.7	$303.7	$342.8	$332.8
Operating profit	$ 17.5	21.7	24.2	28.0	21.3
Operating margin	6.4%	7.6%	8.0%	8.2%	6.4%
Identifiable assets at December 31	$172.3	176.1	175.8	214.7	213.3
Sales per dollar of identifiable assets	$ 1.59	1.61	1.73	1.60	1.56
Operating profit as percent of identifiable assets	10.2%	12.3%	13.8%	13.0%	10.0%
Capital expenditures	$ 8.9	12.3	8.0	19.2	34.0
Depreciation	$ 9.8	9.4	9.5	11.9	10.8
Research and development	$ 6.0	6.4	6.3	6.7	5.0

Protective Services

Protective Services
Sales
Operating profit



Borg-Warner provides the broadest range of protective services offered in the security field. Those services include: Burns℠ and Wells Fargo® guard and investigative services; Wells Fargo alarm and armored services; Pony Express® courier services; and Pyrotronics™ industrial and commercial fire and smoke detection and extinguishment systems.

Customer Classes

Most of the group's services are sold directly to a variety of end users through a branch network. Smoke and fire detection and extinguishment equipment is sold through distributors as well as branch networks.

Business Environment

Competition within the protective services industry is intense. The primary bases for competition are price and quality of service. Each business segment competes with many small local and regional companies, as well as companies with nationwide operations. The ability to control costs and to provide quality service at the local level is critical to the group's success.

Increased competition continues to place price pressures on the entire group. At the same time, such adverse factors as increases in leased telephone line costs and major increases in insurance costs within the armored car industry are squeezing operating margins.

Business Segments

Service		Description	Scope	Markets
Physical Security	**Wells Fargo Guard Services**	Uniformed and plainclothes guards; patrol service; personal protective services; security for conventions, strikes, exhibitions, shows; investigative services.	90 branches and satellite offices in the United States and Canada 16,600 employees	Industrial, institutional, government installation, hospital, airport, fossil fuel and petrochemical generating station security, and hi-tech security.
	Burns International Security Services, Inc.	Uniformed security guards for a variety of users, undercover security operations and consulting services.	122 branch offices in the United States, Canada, Colombia and the United Kingdom 29,700 employees	Clients range from large national concerns to local companies in a wide variety of industries, including nuclear power plant security.
Electronic Security	**Wells Fargo Alarm Services**	Underwriters' Laboratories approved central stations and multiplex proprietary systems to protect against fire, intrusion, burglary and malfunction of industrial processes.	50 locations including 44 central stations 3,000 employees	Primarily government, financial institutions and commercial customers. Some residential customers through Bel Air Patrol.
	Pyrotronics	Multiplex and hardwire fire monitoring systems, halon extinguishment systems, voice evacuation systems and card access security systems.	34 branch offices in the United States and Canada; 300 distributors worldwide 900 employees	Commercial customers from every business sector.
Transportation	**Wells Fargo Armored**	Transport of currency, coin, securities and other valuable commodities under armed guard in armored vehicles; payroll and check cashing; parking meter collection; coin sorting, counting and packaging; automatic teller machine servicing; consolidation of bank deposits; and ground and air courier services for transportation of time-sensitive items with or without armed guards.	155 branches and affiliates in the United States, Puerto Rico, Republic of Panama, Canada and Spain 3,500 employees	Financial institutions and commercial customers.
	Pony Express Courier	Shipment of financial documents and general commodities through ground and air routes on a time-critical basis.	5,300 employees in 50 U.S. offices	Financial institutions and general commodities customers. Shipments for doctors, clinics, opticians, laboratories and other businesses.

Strategic Overview

Even though competition continues to present price challenges and margin pressure, the group expects to report 1986 operating profit better than last year's. Deregulation of transportation services has spawned increased competition by new local and regional companies, resulting in severe price cutting in many markets. Consolidation of financial institutions, together with the expansion and development of new data transmission networks, has reduced the volume of securities and cash carried by couriers. As a result, our business is shifting towards transportation of general commodities.

In addition, rising insurance rates in the armored car industry have required implementation of a new rate structure based on shipment value, rather than a flat rate.

The deflationary environment, increased competition and stable minimum wages continue to cause resistance to rate increases for guard services. However, this unit has successfully strengthened its market position by offering quality service and improving customer retention rates, as well as focusing on specialized security markets.

The group's electronic security operations also suffer from competitive pressures which make rate increases difficult. Nonetheless, annual service and installation sales have increased at this unit.

The structural changes that have taken place in some of our markets have put our profit margins under severe pressure. In this environment we will be reevaluating our strategy in the group. Growth will be moderated, and our efforts will be directed at improving our return on capital employed.

Group Operating Data

(millions)	1985	1984	1983	1982	1981
Net sales	$1,009.8	$ 906.1	$ 757.9	$ 589.2	$ 363.5
Operating profit	$ 63.9	69.6	60.4	45.2	33.4
Operating margin	6.3%	7.7%	8.0%	7.7%	9.2%
Identifiable assets at December 31	$ 647.4	575.8	469.0	426.8	284.6
Sales per dollar of identifiable assets	$ 1.56	1.57	1.62	1.38	1.28
Operating profit as percent of identifiable assets	9.9%	12.1%	12.9%	10.6%	11.7%
Capital expenditures	$ 80.3	75.9	65.0	56.8	48.7
Depreciation	$ 39.2	33.4	24.9	17.3	16.1
Research and development	$ 3.2	2.8	2.6	2.1	1.7

11-Year Financial Summary

(millions except per share; individuals in thousands)	1985	1984	1983	1982
				Year ended December 31
Net sales	$3,330	$3,303	$2,947	$2,612
U.S.	2,653	2,612	2,266	1,902
Non-U.S.	677	691	681	710
Net earnings	178.5	206.1	182.6	167.4
U.S.	131.5	148.9	139.0	137.5
Non-U.S.	47.0	57.2	43.6	29.9
Net earnings per share†	2.01	2.28	2.03	1.95
Return on sales (net)	5.4%	6.2%	6.2%	6.4%
Return on sales—consolidated operations	4.9%	5.6%	4.9%	3.1%
U.S.	4.5%	5.1%	4.4%	2.7%
Non-U.S.	6.5%	7.8%	6.6%	4.2%
Sales per dollar of assets	1.18	1.25	1.18	1.12
Research and development expense	71.8	65.7	63.3	58.9
Interest and finance charges	38.5	36.5	38.7	57.3
Interest coverage	9.2	12.2	9.3	3.2
Effective tax rate (consolidated operations)	39.8%	41.0%	39.1%	30.1%
Current assets	815	778	785	664
Current liabilities	603	574	570	471
Net working capital	212	204	215	193
Working capital turns	15.7	16.2	13.7	13.5
Current ratio	1.35	1.36	1.38	1.41
Inventory	261	245	231	216
Inventory turns*	5.0	5.2	5.1	3.9
Receivables	364	353	328	320
Days' sales in receivables*	42	41	41	42
Capital expenditures	215	184	135	160
Depreciation	107	101	97	88
Capital expenditures times depreciation	2.0	1.8	1.4	1.8
Total debt	353	266	257	315
Short-term	89	73	42	62
Long-term	264	193	215	253
Debt-to-equity ratio	21%	17%	17%	23%
Total debt to total capital	17.6%	14.3%	14.9%	18.8%
Shareholders' equity	1,653	1,595	1,473	1,360
Return on capital (debt plus equity)	9.9%	12.1%	11.8%	11.8%
Return on average equity	11.0%	13.4%	12.9%	12.9%
Reinvested earnings as % of equity	5.8%	8.1%	7.9%	7.9%
Employees (average)	86.4	82.9	77.1	75.1

† Adjusted for two-for-one stock splits in 1983 and 1981.
* As measured internally by the company.

Year ended December 31

1981	1980	1979	1978	1977	1976	1975
$2,566	$2,462	$2,481	$2,128	$1,681	$1,517	$1,334
1,814	1,738	1,779	1,570	1,217	1,049	919
752	724	702	558	464	468	415
172.1	126.1	155.6	125.8	104.0	81.7	44.5
175.6	122.4	123.7	100.2	99.2	78.4	38.2
(3.5)	3.7	31.9	25.6	4.8	3.3	6.3
2.00	1.46	1.81	1.47	1.23	1.05	0.58
6.7%	5.1%	6.3%	5.9%	6.2%	5.4%	3.3%
2.4%	2.5%	4.9%	4.5%	4.3%	3.6%	1.4%
3.6%	3.3%	5.0%	4.4%	5.6%	5.0%	1.4%
(.6%)	.5%	4.5%	4.6%	.9%	.5%	1.4%
1.17	1.26	1.35	1.28	1.21	1.18	1.16
57.3	55.8	47.5	39.3	38.1	34.9	33.6
50.7	55.6	36.5	28.8	25.7	26.0	36.3
3.7	3.7	8.6	9.9	8.9	7.5	2.3
48.6%	41.5%	34.5%	43.4%	45.3%	48.7%	42.7%
679	637	705	668	489	528	452
503	424	433	395	261	266	206
176	213	272	273	228	262	246
14.6	11.6	9.1	7.8	7.4	5.8	5.4
1.35	1.50	1.63	1.69	1.88	1.99	2.19
280	268	327	300	258	262	269
4.0	4.5	4.1	4.3	4.0	3.9	3.8
253	279	291	244	185	135	118
42	43	41	43	47	46	51
217	162	157	127	74	33	51
83	72	64	59	47	39	38
2.6	2.3	2.5	2.2	1.6	0.8	1.3
322	287	276	233	167	206	181
118	64	81	55	22	36	18
204	223	195	178	145	170	163
26%	25%	26%	24%	19%	28%	26%
20.7%	20.0%	20.5%	19.6%	16.1%	21.7%	20.8%
1,236	1,146	1,069	958	872	742	689
12.8%	10.9%	13.0%	11.9%	11.3%	10.0%	7.3%
14.5%	11.4%	15.4%	13.7%	12.9%	11.4%	6.6%
9.6%	6.7%	10.5%	9.0%	8.0%	7.3%	2.6%
55.7	55.2	55.4	47.0	38.9	38.9	39.6

Borg-Warner Financial Data

Segment Data

(millions)	1985 quarter ended March 31	June 30	Sept. 31	Dec. 31	Year 1985
Sales					
Automotive	$ 270.1	$ 302.2	$ 267.1	$ 277.8	$1,117.2
Chemicals & Plastics	227.5	246.5	226.7	227.9	928.6
Industrial Products	61.2	64.6	68.1	79.6	273.5
Protective Services	237.7	242.6	253.8	275.7	1,009.8
Sales of segments	796.5	855.9	815.7	861.0	3,329.1
Divested units	0.1	0.2	0.5	0.2	1.0
Total sales	$ 796.6	$ 856.1	$ 816.2	$ 861.2	$3,330.1
Operating profit					
Automotive	$ 25.7	$ 30.4	$ 31.8	$ 49.6	$ 137.5
Chemicals & Plastics	28.6	34.9	29.7	29.1	122.3
Industrial Products	4.1	3.8	5.6	4.0	17.5
Protective Services	17.2	17.0	14.6	15.1	63.9
Operating profit of segments	75.6	86.1	81.7	97.8	341.2
Divested units	—	(0.2)	(0.4)	(0.9)	(1.5)
General corporate expense	(4.9)	(9.4)	(6.5)	(11.0)	(31.8)
Interest and finance charges	(9.3)	(10.0)	(8.8)	(10.4)	(38.5)
Earnings before taxes	61.4	66.5	66.0	75.5	269.4
Income taxes	(24.7)	(29.9)	(25.2)	(27.3)	(107.1)
Consolidated earnings	36.7	36.6	40.8	48.2	162.3
Financial Services	7.6	(47.1)	11.9	11.4	(16.2)
Affiliates at equity	3.6	26.6	1.7	1.7	33.6
Earnings from continuing operations	$ 47.9	$ 16.1	$ 54.4	$ 61.3	$ 179.7
Earnings from discontinued operations	(3.3)	2.0	(1.3)	1.4	(1.2)
Net earnings	$ 44.6	$ 18.1	$ 53.1	$ 62.7	$ 178.5
Margins					
Operating profit					
Automotive	9.5%	10.1%	11.9%	17.9%	12.3%
Chemicals & Plastics	12.6	14.2	13.1	12.8	13.2
Industrial Products	6.7	5.9	8.2	5.0	6.4
Protective Services	7.2	7.0	5.8	5.5	6.3
Total	9.5%	10.1%	10.0%	11.4%	10.2%
Consolidated earnings	4.6%	4.3%	5.0%	5.6%	4.9%
Net earnings	5.6%	2.1%	6.5%	7.3%	5.4%

		1984 quarter ended		Year	Year	Year	Year	Year
March 31	June 30	Sept. 31	Dec. 31	1984	1983	1982	1981	1980
$ 290.0	$ 312.3	$ 263.7	$ 301.9	$1,167.9	$1,037.4	$ 905.5	$ 960.8	$ 832.8
235.1	252.4	225.6	231.0	944.1	826.3	612.8	663.9	630.9
69.2	74.7	69.5	70.3	283.7	303.7	342.8	332.8	326.7
212.1	222.2	237.1	234.7	906.1	757.9	589.2	363.5	292.4
806.4	861.6	795.9	837.9	3,301.8	2,925.3	2,450.3	2,321.0	2,082.8
0.1	0.2	0.3	0.3	0.9	21.5	161.5	245.4	379.5
$ 806.5	$ 861.8	$ 796.2	$ 838.2	$3,302.7	$2,946.8	$2,611.8	2,566.4	$2,462.3
$ 41.6	$ 53.8	$ 36.0	$ 37.3	$ 168.7	$ 121.7	$ 67.1	$ 73.4	$ 32.3
33.8	36.9	25.6	25.0	121.3	110.2	51.8	61.2	58.8
3.7	5.3	4.7	8.0	21.7	24.2	28.0	21.3	41.4
15.9	17.6	18.7	17.4	69.6	60.4	45.2	33.4	21.9
95.0	113.6	85.0	87.7	381.3	316.5	192.1	189.3	154.4
(0.3)	(0.2)	(0.2)	1.6	0.9	3.3	18.2	21.6	31.8
(5.8)	(11.3)	(8.4)	(4.9)	(30.4)	(44.3)	(37.1)	(41.5)	(26.5)
(9.0)	(9.9)	(8.2)	(9.4)	(36.5)	(38.7)	(57.3)	(50.7)	(55.6)
79.9	92.2	68.2	75.0	315.3	236.8	115.9	118.7	104.1
(34.3)	(39.0)	(29.5)	(26.5)	(129.3)	(92.5)	(34.9)	(57.7)	(43.2)
45.6	53.2	38.7	48.5	186.0	144.3	81.0	61.0	60.9
3.2	9.4	9.0	6.7	28.3	37.4	36.0	32.0	27.2
2.6	(20.3)	4.3	5.9	(7.5)	7.2	35.7	59.1	35.5
$ 51.4	$ 42.3	$ 52.0	$ 61.1	$ 206.8	$ 188.9	$ 152.7	$ 152.1	$ 123.6
(1.2)	4.3	0.7	(4.5)	(0.7)	(6.3)	14.7	20.0	2.5
$ 50.2	$ 46.6	$ 52.7	$ 56.6	$ 206.1	$ 182.6	$ 167.4	$ 172.1	$ 126.1
14.3%	17.2%	13.7%	12.4%	14.4%	11.7%	7.4%	7.6%	3.9%
14.4	14.6	11.3	10.8	12.8	13.3	8.5	9.2	9.3
5.3	7.1	6.8	11.4	7.6	8.0	8.2	6.4	12.7
7.5	7.9	7.9	7.4	7.7	8.0	7.7	9.2	7.5
11.8%	13.2%	10.7%	10.5%	11.5%	10.8%	7.8%	8.2%	7.4%
5.7%	6.2%	4.9%	5.8%	5.6%	4.9%	3.1%	2.4%	2.5%
6.2%	5.4%	6.6%	6.8%	6.2%	6.2%	6.4%	6.7%	5.1%

Borg-Warner Financial Data

Sales by Market

(millions)		1985		1984	U.S. 1985	U.S. 1984	Non-U.S. 1985	Non-U.S. 1984
	Total							
Passenger Cars	$ 776	23%	$ 742	22%	$ 504	$ 445	$ 272	$ 297
Consumer Products	430	13	442	13	323	318	106	124
Light Trucks, Trucks & Off-Hwy. Vehicles	351	10	394	12	313	351	38	43
Energy & Petrochemicals	278	8	280	9	221	213	57	67
Construction (Indus., Commer. & Resid.)	86	3	88	3	54	56	32	32
Automotive Replacement Parts	70	2	74	2	59	60	11	14
Government, Defense & Aerospace	61	2	69	2	56	64	5	5
Industrial Equipment	48	1	51	2	29	27	19	24
Agribusiness	28	1	37	1	24	34	4	3
Protective Services								
Physical Security	552	17	498	15	501	452	51	46
Electronic Security	235	7	211	6	223	198	13	13
Transportation	223	7	197	6	216	191	7	6
Other	191	6	219	7	129	202	62	17
Net Sales*	$3,329	100%	$3,302	100%	$2,652	$2,611	$ 677	$ 691

*Excludes divested units of $1.0 million in 1985 and $.9 million in 1984.

1986 Projected Expenditures

(millions)	Research & Development	Capital Expenditures
Automotive	$ 32	$ 60
Chemicals & Plastics	31	85
Industrial Products	6	9
Protective Services	4	65
Corporate/Research Center	10	11
Total	$ 83	$230

Shareholder Information

(millions)	1985	1984	1983	1982	1981	1980
Stock price (high)†	25	25⅞	27⅝	20⅜	14⅜	11¼
Stock price (low)†	19⅝	16⅞	18⅝	11	9⅜	7½
Price/earnings ratio (average)	10.9	8.9	11.5	7.3	5.9	6.5
Dividends per share (paid)†	.93	.86	.78	.71	.64	.59
Dividend Payout	46%	38%	38%	37%	32%	40%
Dividend yield (average)	4.2%	4.0%	3.3%	5.0%	5.4%	6.2%
Total return (dividend plus appreciation)	19.6%	(10.2%)	34.8%	48.3%	30.0%	26.8%
Shares outstanding (average, fully diluted)†	88.8	90.5	91.1	85.9	86.1	86.2
Book value per share†	18.98	17.89	17.20	16.25	14.76	13.53
Shareholders (year-end)‡	41.0	43.1	43.1	44.2	47.0	50.0

†Adjusted for two-for-one stock splits in 1983 and 1981.
‡In thousands

We've designated the following company contacts for the professional investment community, the news media and shareholders:

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News Update by Phone

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